Ninety – Sixth Legislature – Second Session – 2000

Introducer's Statement of Intent

LB 1119

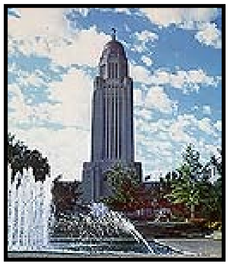
Chairperson: **Senator David M. Landis**
Committee: **Banking, Commerce, and Insurance**
Date of Hearing: **January 25, 2000**

The following constitutes the reasons for this bill and the purposes which are sought to be accomplished thereby:

(1) The bill, introduced at the request of the Department of Insurance, relaxes the insurance rate approval requirements currently in force that require the department to closely scrutinize changes in insurance rates for individual insurers for property and liability insurance offered to commercial policyholders. The bill will allow insurers to file and begin using revised commercial lines insurance rates immediately without the delay required for review by the department. While the department will still review such filings, the review will be less intensive owing to a relaxation in the rate standards applying to such filings. Specifically, isolated instances of "excessive" rates for individual insurers will no longer result in disapproval by the department. In addition, the department will not disapprove rate filings for commercial insurance based upon its opinion that rating differentials and discounts are not be the same as those which the department may feel to be indicated. The bill provides authority, however, for the Director of Insurance to require that specified types of rate filings be subject to review prior to usage when problems (i.e., frequent instances of "excessive" rates) requiring intervention are observed in the insurance marketplace. The purpose of these changes is to foster a more competitive commercial insurance marketplace. It should also be noted that the current Nebraska law governing rate filings for commercial policyholders is among the strictest in the nation; the bill will put the department more in line with other states.

(2) The bill provides greater pricing flexibility for insurers to determine the rates for individual commercial policyholders. The bill requires the department to allow pricing flexibility of ±40% instead of the current ±25% based on purely subjective rating factors, and grants authority to the director to broaden this range. The purpose of these changes is to allow insurers to provide greater discounts to insureds with low expected losses and to be able to provide coverage for more insureds with high expected losses.

(3) The bill directs the director to identify those commercial policyholders, generally larger commercial policyholders, that are likely to be subject to have substantial bargaining power on an individual risk basis and that are more likely to understand the nuances of the differences between coverage forms offered by competing insurers. The bill requires the director to provide rate deregulation; rate and form deregulation, subject to certain restrictions on form deregulation; and rate and form deregulation plus access to surplus lines markets without the necessity to demonstrate that such coverage is not available from admitted insurers. In addition to the standards provided in the bill for the selection of such policyholders, the bill also provides certain minimum thresholds below which the director may not go. The standards contained in the bill point to a higher threshold for form deregulation than for rate deregulation, and a higher yet threshold for unrestricted access to



surplus lines insurers. The purpose of these changes is to allow sophisticated commercial insureds with substantial bargaining power to negotiate rates and coverage provisions without being encumbered by regulatory restrictions that have been generally designed to protect smaller, less sophisticated policyholders. It is also anticipated that these changes will encourage large policyholders to increase their utilization of admitted insurance companies.

(4) Provisions applying to all commercial insureds will exempt insurers from the requirement to use policy forms approved by the department when the policyholder is primarily located in another state. The primary benefit of this will be when a policy covers operations in more than one state, and the states have conflicting notice, cancellation, and nonrenewal provisions.

Principal Introducer: ________________________________

Senator David M. Landis